The following table includes information, by Phase, related to rhe Y2K program for both the Company's sectors:

	Estimated Completion Dates far Mission Critical Systems and Products	% Completed	Expenditures		
			Actual to Dec. 31, 1998	Estimated for 1999	Estimated to Dec. 31, 1999
Telecommunications and Corporate					
IT			$5,969,000	$17,192,000	$23,161,000
Inventory	Completed	100%			
Assessment	3/31/99	96%			
Remediation	6/30/99	50%			
Testing	6/30/99	8%			
Non-IT .			142,000	2,284,000	2,426,000
Inventory	Completed	100%			
Assessment	3/31/99	90%			
Remediation	6/30/99	59%			
Testing	6/30/99	8%			
Public Services					
IT			1,207,000	1,339,000	2,546,000
Inventory	Completed	100%			
Assessment	Completed	100%			
Remediation	3/31/99	95%			
Testing	5/31/99	45%			
Non-IT . . .			1,256,000	6,839,000	8,095,000
Inventory	Completed	100%			
Assessment	Completed	100%			
Remediation	3/31/99	73%			
Testing	6/30/99	43%			
Total .			$8,574,000	$27,654,000	$36,228,000

The Company is required to expense costs related to Y2K remediation. The timing of expenses may vary and is not necessarily indicative of readiness efforts or progress to date. Funding of the Y2K costs is expected to occur from operating cash flows, cash and investments and proceeds from the issuance of securities and/or other borrowings.

The systems of vendors and suppliers play a major role in the conduct of the business of the Company. As a result, in accordance with its Y2K program, the Company has been contacting software suppliers to determine major areas of exposure to Y2K issues. The Company has also been contacting its major suppliers and service providers to ascertain their ability to comply. In addition, the Company contracted with a consulting firm to review the Y2K programs of selected third party vendors. Thus far, most of these parties have stated that they intend to be Y2K compliant by the year 2000. However, there can be no guarantee that the systems of suppliers or service providers on which the Company's systems rely will be compliant, or that failure to be compliant by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company. The Company's Telecommunications businesses rely, directly and/or indirectly, on a large number of traffic carriers to carry telecommunications traffic through a series of interconnected chains of communications. Therefore, despite its efforts, the Company cannot ensure that each entity involved in the delivery of telecommunications services will be Y2K compliant. Furthermore, the electric power-supply systems of North America are connected into four major interconnections called grids. Operational component failures of any entity connected to any of the grids could cause failures in that grid. The Company will need to continue to assess these risks as the millennium approaches to evaluate the likelihood of failures and develop approaches for mitigating rhe risk of failures. In an effort to address third party compliance issues, the Company's Communications sector has initiated resting activities with one of its major suppliers.

In the event of non-remediation of the Y2K issues by the Company or certain of its vendors, the worst case scenario would be disruption of the Company's operations, possibly impacting the provision of services to customers and the Company's ability to bill or collect revenues. However, management believes that the Company's efforts to mitigate its Y2K issues will avoid significant business interruptions. Contingency planning is an ongoing process. While the Company's overall Y2K contingency plan is now being devised, existing disaster recovery documentation and procedures remain the first line of defense. Some Y2K specific plans have been developed and are being reviewed and tested. All Y2K operational contingency plans are expected to be completed and tested by June 1999.

In addition, the Company participates in trade associations such as the Electric Power Research Institute (EPRI) and the American Gas Association (AGA), which furthers the industry's efforts toward Y2K readiness. The Company uses these organizations' Y2K programs' vast resources to accelerate its Y2K program for embedded systems. They also provide a forum for working within the industry peer group whereby joint conclusions may be reached on other key aspects of Y2K readiness. EPRI's Y2K program participants represent more than 70% of the electric power generation capacity in the U.S. AGA represents 181 natural gas utilities that deliver gas to homes and businesses in all fifty states.

The Company intends to complete its Y2K remediation efforts on mission critical systems and products so as to ensure continued delivery of core business activities by June 1999. Testing, remediation and monitoring will continue through the remainder of 1999 to verify that there are no outstanding problems that either were nor captured during the initial Y2K efforts or arose after June 30, 1999. Also, review, modifications and testing of the contingency plans may and will occur throughout the remainder of 1999 and into the year 2000.

The extent and magnitude of the Y2K problem is difficult to predict or quantify. The above information is based on the Company's best estimates which were made using numerous assumptions, including the availability and future costs of certain technological and other resources, third parry modification actions and other factors. Given the complexity of the issue and the possibility of unidentified risks, actual results may vary materially from those discussed above. Specific factors that might cause such differences include, among others, the availability and cost of the personnel trained in this area, the ability to locate and correct all affected computer codes, the timing and success of remedial efforts of third party suppliers and similar uncertainties.

A number of financial and information system applications have been identified as being Y2K compliant due to their recent implementation. The Company's core financial systems are being replaced pursuant to the information systems initiative discussed below.

Other Information Systems Initiatives
The Company also has information systems initiatives in process which are not the result of-the Y2K initiative. These include implementation of an enterprise-wide financial system and the development of technology to bring the Company into full compliance with the Telecommunications Act of 1996 Interconnection Order. For these two projects, the Company expects to incur at least $19,000,000 in costs over the next twelve months. The Company will be required to expense a portion of the cost of these projects under generally accepted accounting principles. For the year ended December 31, 1998, the Company incurred approximately $31,000,000 in total costs in connection with these projects, of which approximately $8,000,000 has been expensed.

New Accounting Pronouncements
In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities measured at f&r value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. This statement is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. The Company does not expect the adoption of SFAS 133 to have a material effect on the Company's financial position, operations or cash ***flows.***

(b) **Results** of Operations

Revenues
Total revenues increased $148.8 million, or 11%, in 1998 and $87.1 million, or 7%, in 1997. The increase in 1998 was primarily due to increases in communications, CLEC and gas revenues. The increase in revenues in 1997 was primarily due to increases in communications and CLEC revenues.

Telecommunications revenues

Telecommunications (communications and CLEC) revenues increased $72.5 million, or 8%, in 1998 and $74.0 million, or 9%, in 1997. The increase in 1998 was primarily due to increased network access services revenues in the communications sector and local telephone services revenues in the CLEC sector. The increase in 1997 was primarily due to increased local network and long distance services revenues in the communications sector and network and local telephone services revenues in the CLEC sector.

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Communications revenues					
Network access services . . .	$432,018	7%	$403,990	3%	$391,151
Local network services	262,239	5%	250,521	8%	232,904
Long distance services	96,584	6%	90,747	54%	59,072
Directory services	31,691	(1%)	31,982	6%	30,248
Other . . .	44,914	(8%)	48,922	(2%)	50,084
Eliminations	(32,407)	37%	(23,573)	110%	(11,250)
Total . .	$835,039	4%	$802,589	7%	$752,209

Network access services revenues increased $28.0 million, or 7%, in 1998 primarily due to increases in special access revenues resulting from the introduction of the DS3 product, increased circuit demand due to Internet growth and increased minutes of use, partially offset by an FCC mandated interstate switched access rate reduction which became effective July 1, 1997. The network access services revenues increase in 1997 was primarily due to increased access minutes of use, partially offset by an FCC mandated interstate switched access rate reduction which became effective July 1, 1997.

Local network services revenues increased $11.7 million, or 5%, in 1998 primarily due to business and residential access line growth and an increase in custom calling features and private line sales. The local network services revenues increase in 1997 was primarily due to communications acquisitions as well as internal access line growth.

Long distance services revenues increased $5.8 million, or 6%, in 1998 primarily due to a 1997 charge of approximately $14.2 million to revenues related to the curtailment of long distance service operations in adjacent markets. Absent the 1997 charge, long distance services revenues decreased 89ó primarily due to the elimination of long distance product offerings to out-of-territory customers, partially offset by an increase in network usage for in-territory customers. The long distance services revenues increase in 1997 was primarily due to growth in customers and increased minutes of use, partially offset by the 1997 charge.

The directory services revenues increase in 1997 was primarily due to communications properties acquisitions and increased volume.

Other revenues decreased $4.0 million, or 8%, in 1998 primarily due to the phasing out of certain surcharges resulting from rate case decisions in California and New York. The other revenues decrease in 1997 was primarily due to decreased billing and collection revenues.

Eliminations represent network access revenues received by the Company's local exchange operations from its long distance and competitive local exchange operations.

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
CLEC revenues					
Network services	$36,589	9%	$33,522	68%	$19,947
Local telephone services .	38,169	261%	10,565	317%	2,533
Long distance services	12,309	51%	8,140	13%	7,232
Data services	13,813	56%	8,857	55%	5,705
Eliminations . .	(3,061)	(8%)	(3,341)	153%	(1,319)
Total	$37,819	69%	$57,743	69%	$34,098

Network services revenues increased $3.1 million, or 9%, in 1998 primarily due to increased revenues in new and existing markers. Existing market increases resulted from additional circuits sold. Increased revenues were partially offset by the expiration of a short-term contract with a significant customer. The network and strategic services revenues increase in 1997 was primarily due to sales of additional products to existing customers and an increase in route miles of 75% over 1996. Approximately $6.8 million of the 1997 increase is associated with a short-term contract with a significant customer which expired in early 1998.

Local telephone services revenues increased $27.6 million, or 261%, in 1998 primarily due to an increase in reciprocal compensation revenues, an increase in access line equivalents, and increased sales of the ISDN product. The Company's interconnection agreements expire in the second half of 1999. Management believes that these agreements will be replaced by agreements offering the Company some form ofcompensation regarding ISP traffic. There is no assurance, however, that the level of compensation will remain consistent with current levels, which could have a material adverse effect on the Company's revenue. The local telephone services revenues increase in 1997 was primarily due to local switch implementations for new and existing customers in the last half of 1996. The successful implementation of the ISDN PRI product generated approximately $2.3 million of increased revenue in 1997.

Long distance services revenues increased $4.2 million, or 51%, in 1998 primarily due to increases in prepaid services minutes processed resulting from new customers and increased revenues resulting from bundling of sales of long distance with other products. The increase in retail long distance revenues were offset by a decrease in wholesale long distance revenues primarily due to the loss of a large customer with credit problems. The long distance services revenues increase in 1997 was primarily due to increased prepaid debit card services introduced in late 1996 and growth associated with the local dial tone services market.

Data services revenues increased $5.0 million, or 56%, in 1998 primarily due to an increase in sales of Internet, frame relay, and LAN/WAN services in new and existing markets, and new products such as ATM and Remote Net Connect. The data services revenues increase in 1997 was primarily due to a $2.1 million increase in Internet access services revenues and $1.6 million in frame relay revenue increases, partially offset by a decrease in other products. The Internet access service and frame relay revenue increases were primarily due to a 75% increase in Internet switches installed.

Eliminations reflect intercompany activity between the Company's CLEC and communications operations.

Public services **revenues**

Public services revenues increased $76.2 million, or 14%, in 1998 and $13.1 million, or 3%, in 1997 primarily due to increased gas revenues.

	1998		1997		
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Gas revenues					
Residential	$150,386	4%	$145,016	8%	$134,888
Commercial	109,259	71%	64,004	29%	49,633
Industrial	47,497	56%	30,366	(25%)	40,230
Municipal	3,657	12%	3,251	35%	2,403
Total distribution	310,799	27%	242,637	7%	227,154
Transportation	2,435	(8%)	2,632	(52%)	5,519
Other	12,189	78%	6,839	(2%)	6,946
Total	$325,423	29%	$252,098	5%	$239,619

Gas revenues increased $73.3 million, or 29%, in 1998 primarily due to rhe acquisition in October 1997 of Gasco, Inc., now known as The Gas Company (TGC), customer growth, increased residential and commercial consumption in Arizona, and increased industrial consumption in Louisiana, partially offset by a decrease in revenues resulting from warmer weather conditions and lower purchased gas costs passed on to customers in Louisiana. The gas revenues increase in 1997 was primarily due to higher gas prices, an increase in the number of customers, the acquisition of TGC and rate increases granted in Louisiana in May 1996 and Arizona in November 1996. This increase was partially offset bv decreased industrial revenue as a result of a decrease in customers and lower consumption from high usage, low margin customers.

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Electric revenues					
Residential	$ 80,887	1%	$ 79,808	—	$ 79,893
Commercial	57,617	3%	55,805	—	55,826
Industrial	39,393	(7%)	42,209	(4%)	44,165
Municipal	0,265	(3%)	8,555	5%	8,175
Total distribution	186,162	—	186,377	(1%)	188,059
Transmission	2,827	5%	2,694	15%	2,339
Other	1,318	(45%)	2,399	26%	1,899
Total	$190,307	(1%)	$191,470	—	$192,297

Absent the 1997 charge to reflect a Vermont public utility commission order requiring refunds to customers of approximately $6.6 million, electric revenues decreased $7.8 million, or 4%, primarily due to lower fuel costs passed on to customers and a commission ordered rate reduction in Vermont. The electric revenues decrease in 1997 was primarily due to the 1997 charge which was partially offset by increased residential and commercial revenues generated from rate increases granted in Hawaii in August 1996 and Arizona in January 1997 and increased consumption.

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Water and **wastewater** revenues					
Residential distribution	$76,167	8%	$70,742	—	$70,845
Commercial distribution	14,793	4%	14,212	3%	13,801
Industrial distribution	1,034	8%	961	14%	843
Other	1,790	(53%)	3,804	36%	2,805
Total	$93,784	5%	$89,719	2%	$88,294

Water and wastewater revenues increased $4.1 million, or 5%, in 1998 primarily due to increased consumption and customer growth in Arizona and Illinois and a rate increase in Pennsylvania. The water and wastewater revenues increase in 1997 was primarily due to an operating and maintenance service contract and a rate increase granted in Pennsylvania in June 1996.

Cost of Services

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Gas purchased	$166,829	19%	$139,900	9%	$127,913
Network expenses	140,471	3%	136,971	77%	77,214
Electric energy and fuel oil purchased	87,930	(7%)	94,726	2%	93,191
Eliminations	(35,468)	32%	(26,914)	114%	(12,569)
Total	$359,762	4%	$344,683	21%	$285,749

Gas purchased expense increased $26.9 million, or 19%, in 1998 primarily due to the acquisition of TGC in October 1997 and an increase in customers in Arizona. The gas purchased expense increase in 1997 was primarily due to fluctuations in the price of gas, increased demand as a result of an increase in the number of customers and the acquisition of TGC in October 1997. Under tariff provisions, increases in the Company's costs of gas purchased are largely passed on to customers.

Network expenses increased $3.5 million, or 3%, in 1998 primarily due to CLEC revenue growth, CLEC national data expansion efforts, and significant growth in CLEC long distance services. This increase was partially offset by an $11. I million 1997 charge related to lease terminations as a result of the curtailment of certain long distance service operations and lower negotiated rates in 1998. Absent the 1997 charge, network expenses increased 12% primarily due to CLEC revenue growth, CLEC national data expansion efforts, and significant growth in CLEC long distance services. The network expenses increase *in* 1997 was primarily due to an ***increase in*** long distance minutes sold requiring additional network access capacity and the 1997 charge.

Electric energy and fuel oil purchased decreased $6.8 million, or 7%, in 1998 primarily due to lower supplier prices in Hawaii and Arizona. The electric energy and fuel oil purchased increase in 1997 was primarily due to higher supplier prices.

Eliminations represent network expenses incurred by the Company's long distance operation for services provided by its local exchange operations and intercompany activity between the Company's CLEC and communications operations.

Depreciation Expense

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Depreciation expense	$257,844	9%	$235,812	22%	$193,733

Depreciation expense increased $22.0 million, or 9%, in 1998 primarily due to the acquisition of TGC and increased property, plant and equipment. The depreciation expense increase in 1997 was primarily due to increased property, plant and equipment as a result of acquisitions and new construction.

Other Operating **Expenses**

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Operating and Maintenance expense	$603,277	(7%)	$650,363	60%	$407,579
Taxes other than income	95,995	4%	92,026	14%	80,947
Sales and Marketing	47,325	(14%)	54,893	28%	42,823
Total	$746,597	(6%)	$797,282	50%	$531,349

Operating and maintenance expense decreased $47.1 million, or 7%, in 1998 primarily due to $150.6 million of 1997 charges partially offset by the full year impact of the acquisition of TGC, increased CLEC operating costs and 1998 special items consisting of Y2K expense of $8.6 million and separation costs of $2.1 million. Absent the 1997 charges and 1998 special items, operating and maintenance expenses increased 19% primarily due to the full year impact of rhe acquisition of TGC and increased CLEC operating costs. The operating and maintenance expense increase in 1997 was primarily due to the acquisition of TGC, increased CLEC costs and the 1997 charges. The 1997 charges include approximately $.7 million related to the curtailment of certain long distance service operations, approximately $34.7 million related to benefit plan curtailments and related regulatory assets, approximately $67.4 million related to the write-off of communications information systems and software, approximately $34.3 million related to regulatory commission orders in New York, Vermont and Arizona, approximately $10.8 million related to accounting policy changes associated with ELI in preparation for its initial public offering and approximately $2.7 million of other adjustments.

Taxes other than income increased $4.0 million, or 4%, in 1998 primarily due to the acquisition of TGC and increased property taxes in Vermont. The taxes other than income increase in 1997 was primarily due to increased payroll, property and franchise taxes resulting from communications acquisitions, taxes associated with long distance operations and increased property taxes in Arizona, California, Louisiana and Pennsylvania.

Sales and marketing expenses decreased $7.6 million, or 14%, in 1998 primarily due to an $8.6 million 1997 charge related to the curtailment of certain long distance service operations. Absent the 1997 charge, sales and marketing expenses increased 2% primarily due to increases in personnel and related expenses to support expanded CLEC service offerings, partially offset by a reduced communications sales and marketing workforce. The sales and marketing expense increase in 1997 was primarily due to increased costs necessary to support an increased level of service offerings and the 1997 charge.

Investment and Other Income

	1998 Amount	1998 Change from Prior year	1997 Amount	1997 Change from Prior year	1996 Amount
			($ in thousands)		
Non operating gain on sale of subsidiary stock	$ —	N/A	$ 78,734	N/A	$ —
Investment income .	32,505	(4%)	33,739	26%	26,834
Other income (loss), net	(24,526)	(704%)	4,062	(90%)	39,621
	$ 7,979	(93%)	$116,535	75%	$66,455

The non operating gain on sale of subsidiary stock in 1997 of $78.7 million represents the pre-tax gain on the ELI initial public offering of 8,000,000 shares of Class A Common Stock at a price of $16 per share on November 24, 1997.

Investment income decreased $1.2 million, or 4%, in 1998 primarily due to lower average investment balances. The investment income increase in 1997 was primarily due to higher investment balances and an increase in the Centennial dividend.

Other income (loss), net decreased $28.6 million, or 704%, in 1998 primarily due to the recognition of a $31.9 million loss resulting from the decline in value of the HTCC investment, partially offset by a 1997 charge of approximately $4.5 million related to an Arizona Public Utility Commission order disallowing recovery of certain amounts of the equity component of the AFUDC. Absent the decline in value of HTCC and the 1997 charge, other income (loss), net decreased 14% primarily due to a decrease in the equity component of AFUDC. The other income (loss), net decrease in 1997 was primarily due to the 1997 charge, $22 million earned from HTCC in 1996 for guarantees and financial support provided by the Company and 1996 gains totaling $4.5 million on the sale of land in Illinois assets in Arizona.

Minority Interest

	1998 Amount	1998 Change from Prior year	1997 Amount	1997 Change from Prior year	1996 Amount
			($ in thousands)		
Minority interest . .	$14,032	2,076%	$645	N/A	$ —

Minority interest is a result of ELI's initial public offering in November 1997 and it represents 17.35%, as of December 31, 1998, of the minority's share of ELI's loss before income tax benefit and cumulative effect of a change in accounting principle.

Interest Expense

	1998 Amount	1998 Change from Prior year	1997 Amount	1997 Change from Prior year	1996 Amount
			($ in thousands)		
Interest expense	$112,239	3%	$109,329	18%	$92,695

Interest expense increased $2.9 million, or 3%, in 1998 primarily due to increased long term debt outstanding partially offset by an increase in the debt component of AFUDC, a 1997 charge of approximately $1.7 million related to an Arizona Public Utility Commission order disallowing recovery of certain amounts of the debt component of AFUDC. Absent the 1997 charge, interest expense increased 4% primarily due to increased long term debt outstanding, partially offset by an increase in the debt component of AFUDC. The interest expense increase in 1997 was primarily due to the issuance ofdebentures in June and December 1996 to fund acquisitions and capital expenditures and the 1997 charge.

Income Taxes

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			(5 in thousands)		
Income taxes	$22,337	203%	$7,383	(91%)	$84,937

Income taxes increased $15.0 million, or 203%, in 1998 and decreased in 1997 primarily due to the $62.1 million tax benefit associated with the 1997 charges to earnings. The effective annual tax rate is approximately 27% and 31% in 1998 and 1997, respectively.

Net Income and Net Income Per Common Share

	1998		1997		1996
	Amount	Change from Prior year	Amount	Change from Prior year	Amount
			($ in thousands)		
Net Income	$57,060	465%	$10,100	(94%)	$178,660
Net Income Per Share . . .	$ .22	450%	$ .04	(94%)	$ .68

1998 net income and net income per share were impacted by the following after tax items: Net losses from the Company's CLEC subsidiary of $34.7 million, or 14¢ per share, the non-cash write down of the Company's investment in HTCC of $19.7 million, or 7¢ per share, the cumulative effect of a change in accounting principle at the CLEC sector of $2.3 million, or 1¢ per share, Y2K costs and separation costs of $6.6 million, or 34 per share. Absent the impact of losses from the Company's CLEC subsidiary and the 1998 special items, net income would have been $120.4 million, or 47¢ per share.

1997 net income and net income per share were impacted by the following after tax items: Net losses from the Company's CLEC subsidiary of $23.8 million, or 9¢ pet share, 1997 charges to earnings (see below) of $135.2 million, or 52¢ per share, and a gain of $5 1.2 million, or 20¢ per share, on the sale of stock by a subsidiary. Absent the impact of losses from the Company's CLEC subsidiary and the 1997 special items, net income would have been $117.9 million, or 454 per share.

1997 *Charges to Earnings*

In 1996 and early 1997, the Company had been pursuing an aggressive growth strategy to take advantage of opportunities in the emerging communications marketplace. This strategy included the initiation and expansion of long distance services which, in combination with other enhanced service offerings, would enable the Company to offer an integrated package of products and services.

Late in 1996, the Company began the transition of its long distance network, primarily to fixed cost leases, in order to achieve the lowest cost of providing long distance service. In addition, the Company initiated a brand recognition program to support the sales and marketing initiatives designed to increase the Company's market share. The increase in revenues resulting from this growth strategy, though significant, did not offset the resulting increase in incremental expenses from the branding, sales, and marketing initiatives. As a result, the Company's long distance service operations generated unexpected losses during the first half of 1997 which had an adverse impact on the Company's earnings and cash flow. During the second quarter 1997, management reevaluated this growth strategy in light of this continuing impact on earnings and cash flow.

In connection with the reevaluation of the Company's communications growth strategy, as well as a review of its employee benefit plans to determine if such plans were competitive with those provided in the industry, several public utility commission orders requiring the Company to record charges to earnings, and other charges to earnings related to certain accounting policy changes at ELI in anticipation of its initial public offering, the Company recorded approximately $197,300,000 of charges to earnings in 1997 as follows:

	(In thousands)
Curtailment of certain long distance service operations	$ 34,600
Benefit plan curtailments and related regulatory assets	34,700
Telecommunications information systems and software	67,400
Regulatory commission orders	47,200
Other	13,400
Total	$197,300

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to the impact of interest rate and market risks. In the normal course of business, the Company employs established policies, procedures and internal processes to manage its exposure to interest rate and market risks. The Company's objective in managing its interest rate risk is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve these objectives, the Company refinances debt when advantageous and maintains fixed rate debt on a majority of its borrowings. The Company maintains a portfolio of investments consisting of both equity and bond financial instruments. The Company's equity portfolio primarily includes long-term investments in telecommunications companies. The Company's conservative bond portfolio consists of fixed income, state and municipal securities. The Company does not hold or issue derivative or other financial instruments for trading purposes. The Company purchases monthly gas futures contracts to manage well-defined commodity price fluctuations, caused by weather and other unpredictable factors, associated with the Company's commitments to deliver natural gas to certain industrial customers at fixed prices. This derivative financial instrument activity is not material to the Company's consolidated financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data

The following documents ate filed as part of this Report:

1. Financial Statements, See Index on page F-l.

2. Supplementary Data, Quarterly Financial Data is included in the Financial Statements (see 1. above).

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Part III

The Company intends to file with the Commission a definitive proxy statement for the 1999 Annual Meeting of Stockholders pursuant to Regulation 14A not later than 120 days after December 31, 1998. The information called for by this Part III is incorporated by reference to that proxy statement.

Part IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The exhibits listed below are filed as part of this Report:

Exhibit No.	Description
3.200.1	Restated Certificate of Incorporation of Citizens Utilities Company, with all amendments to June 6, 1996 and amendment dated May 21, 1998, (incorporated by reference to Exhibit 3.200.1 to the Registrant's Form S-3 filed June 27, 1996 and exhibit 3.200.1 to the Registrant's Quarterly Report on Form IO-Q for the six months ended June 30, 1998, respectively, File No. 001-l 1001).
3.200.2	By-laws of the Company, as amended to-date of Citizens Utilities Company, with all amendments to January 20, 1998, (incorporated by reference to Exhibit 3.200.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 001-11001).

Exhibit No.	Description
4.100.1	Indenture of Securities, dated as of August 15, 1991, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.1 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).
4.100.2	First Supplemental Indenture, dated August 15, 1991, (incorporated by reference to Exhibit 4.100.2 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-11001).
4.100.3	Letter of Representations, dared August 20, 1991, from Citizens Utilities Company and Chemical Bank, as Trustee, to Depository Trust Company (DTC) for deposit of securities with DTC, (incorporated by reference to Exhibit 4.100.3 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1991, File No. 001-l 1001).
4.100.4	Second Supplemental Indenture, dated January 15, 1992, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-11001).
4.100.5	Letter of Representations, dated January 29, 1992, from Citizens Utilities Company and Chemical Bank, as Trustee, to DTC, for deposit of securities with DTC, (incorporated by reference to Exhibit 4.100.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-11001).
4.100.6	Third Supplemental Indenture, dated April 15, 1994, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.6 to the Registrant's Form 8-K Current Report filed July 5, 1994, File No. 001-11001).
4.100.7	Fourth Supplemental Indenture, dared October 1, 1994, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.7 to Registrant's Form 8-K Current Report filed January 3, 1995, File No. 001-11001).
4.100.8	Fifth Supplemental Indenture, dated as of June 15, 1995, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.8 to Registrant's Form 8-K Current Report filed March 29, 1996, File No. 001-l 1001).
4.100.9	Sixth Supplemental Indenture, dated as of October 15, 1995, to Chemical Bank, as Trustee, (incorporated by reference to Exhibit 4.100.9 to Registrant's Form 8-K Current Report filed March 29, 1996, File No. 001-11001).
4.100.11	Seventh Supplemental Indenture, dated as of June 1, 1996, (incorporated by reference to Exhibit 4.100.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 001-l 1001).
4.100.12	Eighth Supplemental Indenture, dated as of December 1, 1996, (incorporated by reference to Exhibit 4.100.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 001-11001).
4.200.1	Indenture dated as of January 15, 1996, between Citizens Utilities Company and Chemical Bank, as indenture trustee (incorporated by reference to Exhibit 4.200.1 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-l 1001).
4.200.2	First Supplemental Indenture dated as of January 15, 1996, between Citizens Utilities Company and Chemical Bank, as indenture trustee, (incorporated by reference to Exhibit 4.200.2 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.3	5% Convertible Subordinated Debenture due 2036, (contained as Exhibit A to Exhibit 4.200.2), (incorporated by reference to Exhibit 4.200.2 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.4	Amended and Restated Declaration of Trust dated as of January 15, 1996, of Citizens Utilities Trust, (incorporated by reference to Exhibit 4.200.4 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.5	Convertible Preferred Security Certificate, (contained as Exhibit A-l to Exhibit 4.200.4), (incorporated by reference to Exhibit 4.200.4 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4.200.6	Amended and Restated Limited Partnership Agreement dated as of January 15, 1996 of Citizens Utilities Capital L.P., (incorporated by reference to Exhibit 4200.6 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).

Exhibit No.	Description
4.200.7	partnership Preferred Security Certificate (contained as Annex A to Exhibit 4.200.6), (incorporated by reference to Exhibit 4.200.6 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
4200.8	Convertible Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Utilities Company and Chemical Bank, as guarantee trustee, (incorporated by reference to Exhibit 4.200.8 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-I 1001).
4.200.9	Partnership Preferred Securities Guarantee Agreement dated as of January 15, 1996 between Citizens Utilities Company and Chemical Bank, as guarantee trustee, (incorporated by reference to Exhibit 4.200.9 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-I 1001).
4.200.10	Letter of Representations, dated January 18, 1996, ftom Citizens Utilities Company and Chemical Bank, as trustee, to DTC, for deposit of Convertible Preferred Securities with DTC, (incorporated by reference to Exhibit 4.200.10 to the Registrant's Form 8-K Current Report filed May 28, 1996, File No. 001-11001).
10.1	Incentive Deferred Compensation Plan, dated April 16, 1991, (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-11001).
10.6	Deferred Compensation Plans for Directors, dated November 26, 1984 and December 10, 1984, (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1984, File No. 001-11001).
10.61	Directors' Retirement Plan, effective January 1, 1989, (incorporated by reference to Exhibit 10.6.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1989, File No. 001-11001).
106.2	Non-Employee Directors' Deferred Fee Equity Plan dated as of June 28, 1994, with all amendments to May 5, 1997, (incorporated by reference to Exhibit A to the Registrant's Proxy Statement dated April 4, 1995 and Exhibit A to the Registrant's Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.16.1	Employment Agreement between Citizens Utilities Company and Leonard Tow, effective July 11, 1996, (incorporated by reference to Exhibit 10.16.1 to the Registrant's Quarterly Report on Form 10-Q for the nine months ended September 30, 1996, File No. 001-l 1001).
10.17	1992 Employee Stock Purchase Plan, with all amendments to May 5, 1997, (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 001-11001).
10.18	Amendments dated May 21, 1993 and May 5, 1997, to the 1992 Employee Stock Purchase Plan, (incorporated by reference to the Registrant's Proxy Statement dated March 31, 1993 and the Registrant's Proxy Statement dated March 28, 1997, respectively, File No. 001-11001).
10.20	Asset Purchase Agreements dated November 28, 1994, (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 001-11001).
10.21	1996 Equity Incentive Plan and amendment dated May 5, 1997 to 1996 Equity Incentive Plan, (incorporated by reference to Exhibit A to the Registrant's Proxy Statement dated March 29, 1996 and Exhibit B to Proxy Statement dated March 28, 1997, respectively, File No. 001-l 1001).
10.5	Participation Agreement between ELI, Shawmut Bank Connecticut, National Association, the Certificate Purchasers named therein, the Lenders named therein, BA Leasing & Capital Corporation and Citizens Utilities Company dated as of April 28, 1995, and the related operating documents (incorporated by reference to Exhibit 10.5 of ELI's Registration Statement on Form S-l effective on November 21, 1997, File No. 333-35227).
12	Computation of ratio of earnings to fixed charges (this item is included herein for the sole purpose of incorporation by reference)
21	Subsidiaries of the Registrant
23	Auditors' Consent
24	Powers of Attorney
27	Financial Data Schedule

Exhibits 10.1, 10.6, 10.6.1, 10.6.2, 10.16.1, 10.17, 10.18 and 10.21 are management contracts or compensatory plans or arrangements.

The Company agrees to furnish to the Commission upon request copies of the Realty and Chattel Mortgage, dated as of March 1, 1965, made by Citizens Utilities Rural Company, Inc., to the United States of America (the Rural Utilities Services and Rural Telephone Bank) and the Mortgage Notes which that mortgage secures; and the several subsequent supplemental Mortgages and Mortgage Notes; copies of the instruments governing the long-term debt of Louisiana General Services, Inc.; copies ofseparate loan agreements and indentures governing various Industrial Development Revenue Bonds: copies of documents relating to indebtedness ofsubsidiaries acquired during 1996, 1997 and 1998, and copies of the credit agreement between Electric Lightwave, Inc. and Citibank, N. A. dated November 21, 1997.

(b) The Company filed on Form 8-K dated November 9, 1998, under Item 7 "Financial Statements, Pro Forma Financial Information and Exhibits," the Company's 1998 third quarter financial results and certain operating data.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS UTILITIES COMPANY
(Registrant)

By: /s/ Leonard Tow

Leonard Tow
Chairman of the Board; Chief Executive Officer; Member, Executive Committee and Director

March 11, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 1 lth day of March 1999.

Signature	Title
/s/ Robert J. DeSantis (Robert J. DeSantis)	Chief Financial Officer, Vice President and Treasurer
/s/ Livingston E. Ross (Livingston E. Ross)	Vice President and Controller
Norman I. Botwinik* (Norman I. Botwinik)	Director
Aaron I. Fleischman* (Aaron I. Fleischman)	Member, Executive Committee and Director
James C. Goodale* (James C. Goodale)	Director
Stanley Harfenist* (Stanley Harfenist)	Member, Executive Committee and Director
Andrew N. Heine* (Andrew N. Heine*)	Director
John L. Schroeder* (John L. Schroeder)	Member, Executive Committee and Director
Robert D. Siff* (Robert A. Siff)	Director
Robert A. Stanger* (Robert A. Stanger)	Director
Edwin Tornberg* (Edwin Tornberg)	Director
Claire L. Tow* (Claire L. Tow)	Director
Charles H. Symington, Jr.* (Charles H. Symington, Jr.)	Director

*By: /s/ Robert J. DeSantis
(Robert J. DeSantis)
Attorney-in-Fact